

Governor's Commission on Family Farms

Meeting Minutes

November 19, 2003

The Governor's Commission on Family Farms met at 10:00am on November 19, 2003 in the Kentucky Department of Agriculture Conference Room in the Capitol Annex in Frankfort, Kentucky.

Members Present:

Ms. Bill Atkins; Mr. Tim Hunt; Mr. Gene Royalty; Mr. Jeff Hall; Mr. Jimmy Henning; Mr. Marc Johnson; Ms. Faye Korthaus; Mr. Luther Mason; Mr. Kenneth Mattingly; Mr. Steve Moore; Mr. Louie Rivers; Ms. Susan Goddard, representing Secretary Wille Lile; Mr. Ira Linville, representing Commissioner Billy Ray Smith

Members Absent:

Mr. James Kirby Hancock; Ms. Susan Harkins; Ms. Denise Hoffman; Mr. David Kash; Ms. Sylvia Lovely; Ms. Mattie Mack; Dr. Jennifer Marsh; Ms. Shiela McCord; Mr. John Medley; Mr. Charles Miller; Mr. Jim Naïve; Mr. Al Pedigo; Mr. William Brandon Reed; Ms. Bonnie Tanner

Governor's Office of Agricultural Policy Staff Present:

Ms. Edith Fultz

Guests:

Mr. Andrew Hightower; Mr. William Benjy Mikel; Mr. Biff Baker; Vicki Yates Brown; Dr. Larry Turner

Ms. Bill Atkins - announced that the press was notified of this meeting, called the meeting to order and asked for roll call.

Ms. Atkins – asked the guests to introduce themselves. Benjy Mikel introduced himself as a staff member of the University of Kentucky, College of Agriculture.

Old Business:

Ms. Vicki Yates-Brown – introduced herself and told the group that she is the Chair of the Health and Insurance Practice Group at Greenbaum, Doll and McDonald, which is a law firm based in Louisville with offices in eight cities. She is a Co-Chair of the Privacy Task Force as well as their Biotech Task Force.

She explained that Ms. Atkins invited her to address the group because of her work at Greenbaum, Doll and McDonald to help us begin thinking about the process that might need to be implemented because farmers, like many people across the state, are in an insurance crisis, with health premiums being so expensive. She told us that she and Ms. Atkins have spent quite

a bit of time on the phone in the last few weeks discussing whether there are any possible ways to deal with this issue. She explained that they explored some avenues and thought it might be possible to put together a committee from this group to come and meet with people in her office to help us start thinking about some possible solutions. She added that they discussed access to association products. She explained that associations have a different rating system than regular insurance. As long as you have pretty good health, because they can take the health of the insured into consideration, associations many times are a more affordable product. There is also the avenue of risk retention product and captives that are being used around the country now. If an association is not possible to access, perhaps looking at risk retention for a captive product where you would set up an entity that would maybe take the first line of risk then attach a high deductible, high-risk product onto that could be considered. She added that a lot of this is trying to figure a way to get yourself around some of the state regulations, and the way you do that is through risk retention captives and association products. Sometimes that gets you out from under some of the state mandates for benefits and some of the rating structure. What you are trying to come up with is a product that says I can rate and I can offer different benefits than may be required under certain state regulations. It may not have all the bells and whistles, but you can at least offer the farmers a good basic health insurance product, maybe only hospitalization or high deductible/ high risk only for hospitalization. If you want to do something more first line, after a certain deductible your health benefits would kick in as well as hospitalization. This could offer farmers a choice based on what their needs are. Right now the way the state insurance laws are put together it is very difficult for these insurers to offer a lot of choice since we have gone through health care reform in Kentucky. Maybe this is a chance for us to re-look at this, access the possible solutions that are out there and offer choice to the farmers. Ms. Atkins added that it is important to work out something if it is only for the children as a niche product. Ms. Brown responded and talked about the state's K-Chip program. She suggested that we take the K-Chip program, build on that model and just offer a product for the children with the thought that maybe you could grow it into something you could offer to the parents as well.

Ms. Atkins announced that Dr. Sparks, who had worked on this, has resigned from the board. She added that we will put together a small committee to work on this. She thanked Ms. Brown.

Ms. Atkins – entertained a motion to approve the minutes of the September 17th meeting. Louie Rivers made the motion Luther Mason seconded the motion. The motion passed, the minutes were approved.

Ms. Atkins – asked for volunteers to work on the health insurance issue. Susan Goddard and Marc Smith volunteered to work on this program.

Dr. Jimmy Henning – introduced himself as the Director of Agriculture programs at the University of Kentucky Cooperative Extension Service and explained that he is new to this board.

Biff Baker – introduced himself as a staff member of the Agriculture and Natural Resources committee of the Legislative Research Commission.

Jeff Hall – introduced himself as the State Director of the Farm Service Agency.

Gene Royalty – handed out a report and brochures on the Kentucky Center for Agricultural Development and Entrepreneurship. He explained that this entity started out one way and ended up another. He told the group that about 2 ½ years ago it started with about \$5.5 million

with a little over \$1 million for administration and that we have just been handling it in house. This information will explain what has been done. He explained that we could take this information with us and come back at the next meeting, discuss it and talk about changes. There is approximately \$630 thousand left in this account.

Mr. Royalty – reported on the Kentucky Agricultural Finance Corporation (KAFC) and explained that this entity has been on the books in Kentucky since the mid eighties. The problem with it was there wasn't any funding provided except \$500 thousand. It has just been sitting there, so back in February a new board was appointed, made up of farm credit people, bankers and farmers. He complimented the KAFC board and their knowledge of agricultural lending. He told us they have been meeting frequently and the Agricultural Development Board funded the KAFC in the amount of \$20 million. It will be more or less a revolving loan program. Hopefully this program will be around in years to come after tobacco settlement monies are gone. There are three parts to this program. They approved their first loan last Friday. There is still some fine-tuning needed on this program. He explained that we have had several meetings with Jeff Hall from FSA in Lexington and his office has been very helpful.

1. **The Young Farmer Financing program** – This is basically the same thing as FSA's Beginning Farmer and Rancher program. We are able to participate as a lender with FSA. That makes those loans have a 95% guarantee. The board can sell off those loans to 95% and take those funds and put them back in the program. We would finance up to 40% of an eligible project. It can be done without a down payment. The applicant could go to conventional lending for the balance. The interest rate is based on the Wall Street Journal's prime rate with a minimum of 4%.
2. **The Agriculture Endeavors Lease Program** - We could possibly purchase a facility and lease it to a value-added agricultural processor who could come to Kentucky and buy our Kentucky produced and grown commodities. We could lease that facility on a ten-year term to the company and at the end of the lease period the facility would belong to the company for \$1. They would have paid all of the interest, debt service and principal on the loan. This basically gives us the ability to act as a local Industrial Authority or Fiscal Court. That would be a capitalized lease and they would be able to depreciate the real estate and expense all of the interest payments on the facility. The maximum participation on this program would be 50%. We would loan up to 50% of the total project cost.
3. **The Investment Fund for Agriculture** - This is where we would make investments with local lenders. We would be able to buy down the interest rate for someone who would like to undertake an expansion or do a project that adds value to Kentucky Agriculture commodities. Maximum participation on any one investment on this would not exceed 50% of the local lenders loan or up to \$1 million. The interest rate on this would be 200 basis points discount off the local lenders rate. That way, when you blend the two rates together you come up with a better interest rate.

Mr. Rivers asked what the maximum on the lease program is. Mr. Royalty responded that it is 50% up to a maximum of \$1million. Mr. Royalty added that all of these programs are tied with local financial institutions.

Mr. Royalty commented that there is a possibility there is going to be some change in HB 611, concerning the 50% match for qualifying for the Agricultural Development Fund, and asked for

input from Biff Baker. Mr. Baker told the group that the Sub-Committee on Rural Issues is meeting tomorrow morning at 10:00am. There was further discussion.

Ms. Atkins – announced that Tim Hunt has joined the meeting and asked him to introduce himself. Mr. Hunt explained that he is Editor of the Lane Report, and shared his professional background. He explained that he is interested in providing alternatives to farmers. He expressed that his primary focus is the plight of farmers, looking at what they are producing now and things beyond the settlement money that they could do to keep a sustainable economy to keep them on the farm.

Dr. Larry Turner – gave an overview of the College of Agriculture programs, food systems and value added processing, particularly from his standpoint at Cooperative Extension. He shared a handout and explained that the food industry is changing nationally. He noted that in 1960 there were 6.3 million on farm jobs and 3.9 million in the whole category of food service, retailers and wholesalers. In 2000 there are 1.8 million in the U.S. on farms the hospitality sector is 8.1 million and the food manufacturing and retailing is 4.5 million. One of the things the College of Agriculture is looking at is the whole food system, from the farm to the fork. He explained that the American consumer is spending more than 50% of their food dollar away from home and obesity is a chronic problem across the country and around the world. He commented that Kentucky is a leader in this category and this is not where we want to be. We need to look at ways we can provide fresh fruits and vegetables for good nutrition. That ties back into our family farms. There are a lot of opportunities to capitalize on production on our farms for meeting high quality food needs and niche markets.

Under the list of College of Agriculture programs there are several nutrition and health areas. They do a lot of nutrition education for low-income audiences in the Expanded Food Nutrition Program and the Food Stamp Nutrition Education Program. Those are both funded by the Food Nutrition Service at USDA. They have launched a new program called Health Education Through Extension Leadership. That program involves connecting Extension Agents with the Medical Center on Campus and looking at how nutrition and health interact, addressing those things like chronic heart disease, diabetes, cancer and how a lot of those things are tied to nutrition which is tied back to quality farm products. They are doing research in nutrition and health with the Center for Nutritional Research on Campus. They have been involved in the Farm to Table programs connecting Family Consumer Science agents with Agriculture agents looking at how they can connect the production side with the consumption side. They have been doing a lot of work with on farm value added processing education. He told us that Benjy Mikel has been working on this. He explained that Sandra Bastin has been organizing along with Benjy and others. Sandra is a nutritionist at the College of Agriculture who has been working with HB 391 (Micro-processing for Farmers Markets), partnering with the Public Health Department. He explained further and mentioned other programs they are working on.

Benjy Mikel – complimented Dean Smith and told us that while he was Associate Dean for Research he started looking at food processing and value added as a way they can help all Kentucky farmers. He told us that they started talking about what they could do for each individual farmer. He explained that all farmers aren't going to have the same goals. Some farmers are going to want to be direct marketer's, some are going to want to go to Kroger, Wal-Mart or the commodity brokers to move products. They think they have to give each group of people the opportunity to try to add value as much as possible within the realm of what they want to do. He stated that farmers, for the most part, are price takers, not price setters. He commented further that they are starting to see people decide they want to move forward, be innovative, creative and come out of the box. He told us that it isn't just himself or the people in

the Food Science Group within the Animal Science Department. It is people all over the University. They are starting to do a lot of work with the Gatton Business School. They are helping do some economic analysis. He told the group that President Todd has challenged them to think innovatively about how they can not only be a top twenty institution in research, but how they can help the people of Kentucky. They are working on a case-by-case or group-by-group basis recently working with people trying to see what they are doing now and what they might be willing to do in the future. He commented that Ms. Atkins is one of his star clients. He told us that she has done some things looking at products we are producing in Kentucky and adding value to them.

He questioned how can we make links with existing companies or how can we take on the role of further processing of the product and eliminating the middleman. Sometimes we don't want to eliminate all of the middlemen, but sometimes we may want to keep more control of what we are doing. He told us that Joe B. Hall is working on a product that they want to retain control of. They plan to meet with President Todd very soon about jump-starting that product at UK. He used John Medley as an example of someone who is not leaving what he does best, which is pork. He is adding a sideline to his enterprise. He now has a USDA approved processing facility in Louisville. He is not only selling his product, but a lot of other farmers' product through some of the high-end outlets in Louisville.

He told us that they have funding from the Kentucky Science and Technology Corporation so at the present time anyone who is working with them is doing so for free. They don't have to pay for testing or lab use. So far, they have been able to allow people to come in and utilize their facilities, their labor force and their expertise to help people get these products closer to where they want them to be. The School of Human Sciences has moved into their College and with the Economics people, the Agriculture Economist, and the Gatton School of Business they have been able to start to develop a team. He mentioned the good relationships with the Kentucky Department of Agriculture where they have been able to help identify some of the producers in the state that might benefit from the things they have been doing. They want to enhance Kentucky products. Maybe it isn't a product, maybe it's just a concept, be innovative and help jump-start whatever it might be that you are looking at. They have helped with anywhere from the concept development all the way through the packaging, labeling, design and the marketing. Ms. Atkins suggest that they might include Kenneth Mattingly who has been through this process all by himself. He can relate to the problems and the time it took.

Kenneth Mattingly explained that they went from dairy farming for 27 years, and started making cheese 5 years ago. They started making one kind of cheese and now they are making 14 varieties. He commented that as a small business they have created on their own they have been pretty successful. There is still a lot of frustration because they have never been where they are right now. He commented further about the farmer knowing what is out there. He stated that he believes this will happen a lot quicker if we go to the farmer. Mr. Mikel responded that they realize the need to get the word out there but they are somewhat leery of being overrun. He added that they are looking at offering a value added symposium next spring. He explained that they are now working on trying to develop a commitment to an agricultural product market.

Marc Johnson - thanked Mr. Mikel and Dr. Turner for coming to the meeting then offered comments on deer herds and the opportunity to diversify through deer meat processing in Kentucky. Mr. Mikel responded commenting on the moneymaking opportunities through processing deer meat. He commented further on a processing plant in Liberty that is closing their domestic processing for the deer season to process deer. Mr. Johnson explained that

Kentucky has just instituted a lot of regulations in an attempt to keep chronic wasting disease out of the state. Ira Linville added that we are the largest beef producing state east of the Mississippi and all it takes is one case. He commented further that one cow in Canada cost their cattle industry over \$2 billion. There were further comments. Mr. Mattingly suggested that Fish and Wildlife change their rules to allow hunters to get more to help feed the hungry. Mr. Johnson told the group that is already happening and that there are several grass roots organizations like Hunters for the Hungry and Gods Pantry. They are trying to help cull the herd and at the same time feed the hungry. You can contribute to the processing of a deer through payroll deduction, as a Kentucky employee.

Tim Hunt suggested creating a signature product like burgoo, distributing it as a canned product and explained how this could eliminate a lot of issues. Mr. Mikel responded that if the state of Kentucky had 2 or 3 pilot facilities where groups or individuals could come in and utilize an incubator kitchen and produce their product on a minimal scale that would be of great value to make sure these products would work in the grand scheme of things. Ms. Atkins stated that other Universities and colleges in Kentucky are working with farmers. Dr. Turner added that the Kentucky Department of Agriculture and other agencies and organizations are working on this.

Ira Linville mentioned the Tri-State meeting called the Future of Rural – A Summit of Leadership talking about rural issues and how we might look at improving our rural economy and our rural way of life on a regional multi-state basis rather than in state. He explained further. Mr. Baker told the group the Carolyn Orr is putting together a summary and creating a web page with as much information as possible. Hopefully they will get together for a follow up with the group particularly for issues like health care. He commented further. Susan Goddard added that they talked about interstate partnerships, buying and selling goods between the three states and how having the partnerships and the collaboration of three states as a voice on issues that concern farming on everything from health care to commerce going to Washington it is a lot more vocal. The states involved are Indiana, Kentucky and Tennessee.

Mr. Hunt – Explained that the business concerns are immediate delivery, consistency of quality and how you meet demand. He suggested a tracking database of producers and what they produce. He explained further that to facilitate this process we would need a single entity to go to. He expressed the importance of easy access to information through centralization and dissemination of information. There were comments from group members with discussion to follow. Jeff Hall stated that the Agriculture Statistic Service has this information. Mr. Hunt concurred that the USDA Economic Research Service has this. He emphasized that his point is not necessarily that we want to get into the database business. Eventually that might be a goal through extension offices. The initial site would be little more than a links page. He explained further. Ms. Atkins suggested we could have a phone number for people to speak to a human. There was further discussion by the group. Dr. Turner offered the example of the web site for equine questions. Andy Hightower mentioned coming into contact with some individuals who may have some Phase I backing who are putting together some sort of Kentucky Agriculture & Resource Development site. Mr. Royalty explained this further and responded that this might go before the Agricultural Development Board in December.

Ms. Atkins – Stated that we should think about getting support in the Legislature to save the money for agriculture and keep it from going other ways. She asked Mr. Hightower what we as members of the Governor's Commission on Family Farms could do to influence the preservation of that money. Mr. Hightower – responded that in the state of transition we are in, where we are discovering the structure of the government and the budget he doesn't have any suggestions other than speaking to our legislators. He added that his only authority here is to listen and

begin a dialogue between this group and the Governor Elect. Ms. Atkins asked for input from other members. Mr. Royalty – responded that he believes individually all the legislators would like to keep this program, but when they get into the committee meetings there will have to be some deals made to hammer out a budget. There was some group discussion.

New Business:

Tim Hunt – explained that he has done some research on how to increase the value of meat products and one the big things we are lacking is a good aging facility. He told us there are facilities in New York, Chicago and one near Los Angeles. He told us that aged beef brings a much higher market price than wet cured or fresh slaughtered. Ms. Atkins suggested that fresh slaughtered is treated in some way to make it fake aging. Mr. Hunt responded that it doesn't command the price. He is suggested aging to bring a better price and explained further. Ms. Atkins asked if there are other meats that could be aged. Mr. Hunt responded that any other red meat could be aged as well as some poultry products. Faye Korthaus spoke to the aging process and explained that some aging of beef is being done in Kentucky. Mr. Hunt replied that we want to do this on a larger scale. There was further discussion by the group.

Mr. Hunt – brought up gourmet mushrooms as another alternative crop and talked about how low tech and simple this can be.

Ira Linville – complimented Mr. Hunt on the Article he wrote called the Business of Mushrooming.

Susan Goddard – reminded the group that the Cabinet for Workforce Development has a system that they use with their One-Stop's and Employment Services Agencies called the Employ Kentucky Operating System. The last time she looked there was 4,000 agriculture related job seekers. In talking to Jim Mansfield last week, he said that Horticulture is looking for middle managers. She said this is a service they have and these services are free.

Next Meeting Date:

The next meeting will be January 6, 2003 at the Holiday Inn North in Lexington during the Horticulture Conference.

Adjourn:

The meeting adjourned at 12:00 Noon.